

III.D.1. Financial Statements

Introduction

A good way to search for tax shelters is to review the taxpayer's financial statements. Financial statements can be found in annual reports, company web sites and SEC reports. When reviewing the statements, pay special attention to management's discussion and analysis, accounting policies, and notes to financial statements.

Shelter Indicators

1. One indicator in the annual report of whether a shelter is present is whether the tax attributes of the corporation suggest the need for a tax shelter; e.g., is there a NOL to be used, or a gain from the sale of a subsidiary to be off-set?
 2. A comparative analysis of the financial statements and organizational charts from year to year may reveal organizational changes, and other business/investment activities that may indicate that the corporation is structuring a shelter transaction.
 3. An unaccounted for discrepancy between the financial statement and the tax return may indicate a shelter is present.
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FASBS Disclosure Requirements

Be aware of the differences between tax accounting and financial accounting. Often, financial accounting requires disclosure of information that might be of use in the search for tax shelters. An example is the FASB Statement that provides standards for distinguishing between the transfers of financial assets that are sales and those that are secured borrowings. Another example is the fair value disclosure requirements for derivative instruments and hedging activities of FASBS 133 & 107, and the accounting for debt and equity securities. FASB Statement 96 that governs current or deferred tax liabilities or assets is also applicable. In addition to information obtained from financial statements and the disclosure requirements in the Notes to the Financial Statements, the worksheets for these statements may also contain additional valuable information and should be secured.

Summaries of FASB Statements can be found at the web site:

<http://accounting.rutgers.edu/raw/fasb/>

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III.D.1. Financial Statements, Continued

Items Found in Annual Report Many of the items discussed in [Section III C 3 - Return Line Items](#), can also be found by reviewing the Financial Statements. They include the following:

1.	Management's discussion of dispositions and acquisitions
2.	Capital stock holdings
3.	Redemptions and/or new issues
4.	Recapitalizations
5.	Creation of new entities
6.	Investment activity
7.	Put/Call options
8.	Financing agreements
9.	Stock purchase and sale
10.	Related party transactions
11.	Contingent liabilities
12.	Employee benefits plan
13.	Environmental funding
14.	Investment banker/other outside advisor
15.	Lists of liabilities
16.	Promissory notes
17.	Stock exchange
18.	Liability management agreements
19.	Contractual assumption of liabilities
20.	Services agreement
21.	Revolving credit agreement
22.	Leasing agreements
23.	Contractual arrangements
